

Message Text

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AMEMBASSY SEOUL

C O N F I D E N T I A L TOKYO 18918

E.O. 11652: GDS
TAGS: ETRD JA US
SUBJECT: U.S.-JAPAN ECONOMIC RELATIONS IN 1977

REF: TOKYO 18809

1. SUMMARY. OUR LARGE AND CONTINUALLY EXPANDING ECONOMIC TIES WITH JAPAN REMAIN SOUND BUT ARE NOT WITHOUT PROBLEMS. TRADE FRICTIONS PRESENT THE GREATEST FUTURE RISK, INCLUDING SPIN-OFF FROM EMOTIONALLY CHARGED EC-JAPAN ISSUES. THE NEW FUKUDA CABINET IS STRONGLY ORIENTED TOWARDS ECONOMICS, WITH CLOSE TIES TO BOTH BUSINESS AND THE BUREAUCRACY. WE SHOULD CONTINUE TO PRESS OUR CASE ON SPECIFIC ISSUES FORTHRIGHTLY TAKING THE INITIATIVE ON A FEW AREAS OF PARTICULAR CONCERN IN ANTICIPATION OF THE HOLDING OF AN ECONOMIC SUMMIT EARLY IN 1977. END SUMMARY.

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2. THE PAST YEAR CONTAINED BOTH PLUSES AND MINUSES FOR OUR TREMENDOUSLY IMPORTANT AND CONTINUALLY EXPANDING ECONOMIC TIES WITH JAPAN. U.S.-JAPAN TRADE IS IN EXCESS OF DOLS 25 BILLION THIS YEAR; THE BILATERAL TRADE DEFICIT WILL REACH DOLS 5.5 BILLION. BUT SO LONG AS THE U.S. GLOBAL BALANCE OF PAYMENTS POSITION REMAINS SOUND, THE BILATERAL BALANCE OF TRADE NEED NOT BE AN

ISSUE. THE SWIFT INCREASE IN THE BILATERAL TRADE DEFICIT DURING THE FIRST HALF OF 1976 PROMPTED SOME U.S. CONCERN THAT JAPAN WAS NOT COMPLETELY FULFILLING THE PLEDGES IT HAD MADE AT RAMBOUILLET CONCERNING EXCHANGE RATE MANAGEMENT. HOWEVER, THESE PRESSURES SEEM TO HAVE ABATED SOMEWHAT SINCE JAPAN'S EXPORTS TO THE U.S. HAVE REACHED A PLATEAU. JAPANESE AND U.S. OFFICIALS HAVE CONTINUED THEIR DISCUSSIONS ABOUT APPROPRIATE GUIDELINES FOR EXCHANGE RATE MANAGEMENT, AND THERE HAS BEEN A GROWING RECOGNITION THAT THE PRINCIPAL ISSUES CONFRONTING U.S.-JAPAN RELATIONS INVOLVE TRADE PROBLEMS OF PARTICULAR INDUSTRIES. THE IMPORTATION OF COLOR TVS, FOR EXAMPLE, WAS A PARTICULARLY TENDENTIOUS ISSUE THIS YEAR. THE ITC DECISION TO LIMIT ITS INVESTIGATION TO AN ARTICLE 201 PROCEEDING HAS DEFLATED THE ISSUE BEFORE THAT BODY, BUT HAS LEFT SOME LINGERING SORENESS HERE THAT ARTICLE 337 CHARGES OF UNFAIR TRADE PRACTICES HAD BEEN TAKEN SO SERIOUSLY IN THE FIRST PLACE.

3. FISHERIES LOOKED TO BE BY FAR THE MOST DELICATE U.S.-JAPAN QUESTION SINCE THE FISHERY MANAGEMENT ACT BECAME LAW LAST APRIL. CAREFUL MANAGEMENT ON BOTH SIDES HAS GREATLY LOWERED THE POLITICAL TEMPERATURE, BUT SOME SCARS HAVE BEEN LEFT. IF AN AGREEMENT CAN BE CONCLUDED SOON AND IMPLEMENTED WITH AN EYE TO JAPANESE SENSITIVITIES, FISHERIES PROBLEMS NEED NOT AGAIN BECOME TROUBLESOME.

4. CIVIL AVIATION WAS WORRISOME FOR A TIME. IT NOW APPEARS THAT THE HARDLINERS IN JAPAN AIR LINES WHO WERE DICTATING THE GOJ POSITION HAVE OVERPLAYED THEIR CARDS AND HAVE BEEN BROUGHT UNDER A DEGREE OF CONTROL BY THE JCAB AND FORN MINISTRY, WHO WERE AIDED BY OUR TAKING AN EQUALLY TOUGH LINE. JAPANESE NEGOTIATORS
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ARE NO LONGER SUGGESTING ABROGATION OF THE PRESENT AGREEMENT, ALTHOUGH THEY ARE STILL DEMANDING NEW CONCESSIONS.

5. A MAJOR POTENTIAL PROBLEM LIES AHEAD IN THE COLOR TV DUMPING CASE BEFORE THE U.S. CUSTOMS COURT (THE ZENITH CASE). THE JAPANESE HAVE BEEN GUIDED BY PAST USG RULINGS ON TAXATION AND TRADE. THEY ARE HAPPY TO MEET REASONABLE STANDARDS FOR FAIR TRADE BUT RESENT HAVING LONG ESTABLISHED PRACTICES CHALLENGED IN U.S. COURTS UNDER CIRCUMSTANCES WHICH MAY SERIOUSLY HURT JAPANESE EXPORTERS. IF THIS CASE IS LOST IN U.S. COURTS, THE JAPANESE WILL PROBABLY WAIT TO SEE WHAT HAPPENS ON APPEAL, BUT THEY WILL ALSO EXPECT THE USG TO SOMEHOW PREVENT A SUSPENSION OF DUTY LIQUIDATION OF TV IMPORTS, AND ESPECIALLY TO PREVENT THE SPREAD OF SUSPENSIONS TO OTHER PRODUCTS.

6. JAPAN-EC TRADE RELATIONS SUDDENLY BECAME TENSE IN NOVEMBER. THE U.S. IS ON THE SIDELINES IN THIS DISPUTATION ONLY IN A TECHNICAL SENSE. SHIPS, STEEL AND CONSUMER ELECTRONICS ALL BECAME

BATTLEFIELDS, AND THIRD COUNTRY MARKETS COULD ALSO BECOME AREAS OF CONFLICT, CONSIDERING RISING EC CONCERN OVER JAPANESE COMPETITION FOR MARKET SHARES. WE HAVE AN IMMEDIATE INTEREST IN ASSURING (A) THAT JAPANESE EXPORTS ARE NOT REDIRECTED TO THE U.S. AND (B) THAT WE BENEFIT EQUALLY IN GREATER ACCESS TO THE JAPANESE MARKET. MORE BROADLY, WE WOULD NOT WISH TO SEE EC-JAPANESE DISPUTES TRIGGER A RETROGRESSION IN THE WORLD'S LIBERAL TRADE PRACTICES OR STAND IN THE WAY OF CLOSE COOPERATION AMONG ADVANCED, FREE-MARKET NATIONS IN REGARD TO WHOLE RANGE OF COMMON INTEREST POLICIES, INCLUDING NORTH-SOUTH ISSUES.

7. ENERGY AND DEPENDENCE ON IMPORTED CRUDE OIL ARE DORMANT PROBLEMS FOR JAPAN AT THE MOMENT DESPITE RECENT OPEC ACTION. JAPAN WILL OBVIOUSLY NOT WELCOME NEW PRICE INCREASES, BUT CAN AND WILL PAY MORE FOR OIL IF NECESSARY. THE REAL CONCERN HERE IS THAT A DETERIORATION OF THE MIDDLE EAST SITUATION WILL RESULT IN A NEW EMBARGO, BUT THE JAPANESE SEE NO WAY FOR THEM TO PREVENT THAT FROM HAPPENING. DIVERSIFICATION OF ENERGY SOURCES IS CONFIDENTIAL

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ABOUT THE ONLY COURSE THAT CAN HELP JAPAN, WHICH IS THE BASIC REASON FOR JAPANESE INTEREST IN ALASKAN CRUDE.

8. IN THE NEXT YEAR THERE ARE SEVERAL ACTIONS WHICH THE U.S. COULD TAKE THAT WOULD SMOOTH AND STRENGTHEN OUR TIES WITH JAPAN. THE NEW FUKUDA CABINET HAS BEEN HEAVILY INFUSED WITH ECONOMIC TALENT. WE CAN EXPECT IT TO UNDERSTAND THE INTERNATIONAL RAMIFICATIONS OF DOMESTIC ECONOMIC POLICY MEASURES. WE THEREFORE SHOULD: (A) URGE JAPAN TO ADOPT A MORE EXPANSIONARY DOMESTIC ECONOMIC POLICY. MEASURES TO INCREASE INTERNAL DEMAND IN JAPAN WOULD INCREASE IMPORTS AND HELP TO REDUCE THE CONTENTIOUSNESS OF TRADE ISSUES; (B) PUSH STRONGLY FOR MAJOR PROGRESS IN THE MTN IN GENEVA. THIS WOULD DEFUSE MANY EXPLOSIVE TRADE ISSUES WITHOUT RESORT TO BILATERAL JAPAN-EC ACTIONS WHICH RISK OR SEEM TO RISK DAMAGING THIRD COUNTRY INTERESTS; (C) WITHOUT WEAKENING ENFORCEMENT OF THE FISHERIES MANAGEMENT ACT IN ANY SENSE, APPLY THE RULES TO JAPAN WITH CAREFUL FAIRNESS AND SENSITIVITY TO JAPANESE DEPENDENCE ON THE SEA FOR PROTEIN. WE HAVE GIVEN JAPAN SOME UNEARNED BRUISES HERE. A LITTLE EMOTIONAL BALM WOULD COST ALMOST NOTHING: RAISING THE JAPANESE QUOTA FOR ALASKAN POLLOCK FROM 700,000 TO 750,000 MT WOULD HAVE A MAJOR FAVORABLE IMPACT; (D) SERIOUSLY--AND PUBLICLY--CONSIDER SALES OF ALASKAN CRUDE TO JAPAN UNDER APPROPRIATE CONDITIONS TO SEE IF THE ECONOMICS OF SUCH SALES ARE SOUND. HARDLY ANY OTHER ACTION WE MIGHT TAKE COULD DO MORE TO COUNTER JAPANESE FEARS OF U.S. ISOLATIONISM AND PROTECTIONISM; (E) KEEP A CLOSE WATCH ON EC-JAPAN TRADE DEVELOPMENTS, URGING BOTH SIDES TO SEEK REMEDIES BILATERALLY OR IN THE OECD OR THE GATT AS APPROPRIATE. WITHOUT OUR HAVING TO SAY SO, THIS WOULD ALSO REMIND JAPAN THAT WE ARE THE THIRD COUNTRY WE ARE THINKING ABOUT WHEN WE TELL THEM TO TAKE ACCOUNT OF THIRD

COUNTRY INTERESTS; (F) ON BILATERAL ECONOMIC QUESTIONS SUCH AS CIVIL AVIATION AND AGRICULTURAL TRADE PROBLEMS, CONTINUE TO ADHERE TO A FIRM LINE IN DEFENSE OF OUR INTERESTS. OUR RELATIONS WITH JAPAN ARE SOLID ENOUGH TO WITHSTAND "NORMAL" STRAINS, AND WE CAN AFFORD TO TAKE A STRONG LINE WHEN IMPORTANT INTERESTS ARE INVOLVED; (G) A CONSTRUCTIVE AND WELL-PREPARED ECONOMIC SUMMIT, CONFIDENTIAL

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SHOULD ONE BE HELD, COULD CONTRIBUTE MUCH TO THE ACHIEVEMENT OF THESE SUGGESTIONS.
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